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DIRECTORATE OF INTELLIGENCE

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MOZAMBIQUE: Reeling From Economic Blows

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Summary

The Mozambique economic situation is among the worst in sub-Saharan Africa. Economic activity has been in almost continuous decline since the country became independent in 1975. A critical shortage of skilled personnel, armed insurgency by guerrilla groups, deteriorating economic relations with South Africa, and the effects of Marxist-oriented economic policies have discouraged domestic production and foreign investment. Although Mozambique retains much economic potential, its problems are so deep-seated that we see scant prospect of regaining pre-independence levels of output by the end of the decade. Even moderate economic growth within that time may require a substantial reorientation of Maputo's economic policies.

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The economic decline has accelerated since 1981 because of the growing insurgency and a series of natural disasters including the worst drought in the country's recorded history and by periodic cyclones and flooding. Although South Africa started to increase its economic ties after Maputo signed a nonaggression pact with Pretoria in March, the insurgency

This memorandum was self-initiated by [redacted] Regional Issues Branch, Africa Division, Office of African and Latin American Analysis. Questions and comments are welcome and may be directed to the Chief, Africa Division, ALA [redacted]

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continues to disrupt economic activity in all of Mozambique's provinces. The drought has produced famine conditions in parts of the country. [redacted]

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Causes of Economic Decline

Mozambique has an unusually long list of economic handicaps.

- Since independence, the country has suffered from a chronic shortage of skilled personnel. The illiteracy rate is 85 percent, down from 95 percent in 1975, and 80-90 percent of the population is engaged in subsistence agriculture.
- Poor relations with South Africa since 1975 have substantially reduced the country's earnings from transportation services and remittances from Mozambican mine workers in South Africa, important items in Maputo's balance of payments.
- The Marxist-oriented economic policies of the government have hobbled economic activity with widespread nationalizations, huge and inefficient state farms, and an extensive regime of price controls.
- Through 1979, Mozambique sustained substantial economic damage from the Rhodesian civil war. The closing of the border with Rhodesia in 1976 cost Maputo \$100-150 million annually in Rhodesian transport fees. Punishing raids by the Rhodesian military against Zimbabwean black nationalists based in Mozambique also proved costly to Mozambican transportation facilities and to the economy.
- Since 1979, Mozambique has been increasingly subjected to periodic cyclones, floods, and droughts that have dealt serious blows to agricultural production.
- Since 1981, agriculture, transportation, and other economic activity have been severely hampered by the guerrilla activity of the Mozambique National Resistance (RENAMO), the anti-government group initially supported by Rhodesia as a countervailing force during its civil war and since Zimbabwean independence backed by South Africa to discourage Mozambican support for African National Congress guerrillas operating against South Africa. [redacted]

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RENAMO has been a major cause of the present economic chaos. The

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insurgents (estimates of their total number range from under 10,000 to 15,000) operate in all Mozambican provinces, attacking rail and road transportation links, electricity transmission lines, foreign assistance projects, and foreign workers. So far this year, RENAMO activity has included cutting the Maputo-Zimbabwe rail line at least 4 times, curtailing the rehabilitation of the Nacala-Malawi rail line, sabotaging and forcing the temporary closing of the Beira-Mutare petroleum pipeline, and destroying several power transmission pylons for the Cabo Bassa hydroelectric project. RENAMO attacks on the transport of food relief have been hampering emergency assistance efforts in drought-stricken areas. Guerrilla activity has forced Maputo to divert a sizable portion of its resources from economic development to defense and has contributed to the flight of Mozambicans into neighboring countries.

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Economic Impact

The cumulative effects of these adverse trends have practically crippled the Mozambican economy. Although official Mozambican economic data are scanty and unreliable, we estimate--based on US Embassy reporting [redacted]--that agricultural exports fell last year to one-half the levels of 1981 and that sugar production of some 90,000 metric tons was about one-third of sugar output 10 years earlier. Industry operates at no better than 15-20 percent of pre-independence capacity, with shortages of raw materials and spare parts. Consumer goods have all but disappeared from shops, and basic commodities are strictly rationed.

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The drought has affected eight of Mozambique's 10 provinces, with Gaza, Inhambane, Tete, and Manica the most affected. One hundred thousand people died last year in Inhambane province alone, according to press reports. Since 1981, famine has claimed at least 170,000 lives, according to estimates by international relief officials in Maputo reported in the press in July. The country has no locally grown food reserves. Some 1.5 million of Mozambique's 13 million people are now directly dependent on international emergency food aid, principally from Western bilateral donors.

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The famine will continue to worsen this year and reach a critical point in early 1985, according to a United Nations report issued in early June.

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[redacted] In the meantime, tens of thousands of starving Mozambicans have fled mainly to Zimbabwe but also to other neighboring countries in search of food.

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The country's balance of payments has suffered from the poor relations with South Africa. Pretoria's exports and imports through

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Maputo plummeted to 1.1 million tons last year, compared with 6.8 million tons in 1973. The number of Mozambican mine workers in South Africa has dropped to around 45,000 down from 118,000 in 1978. [redacted]

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The Mozambican authorities have estimated the total cost to the country of South Africa's economic boycott at \$4 billion, but we believe this estimate is high. Most of the amount reflects the subsidy lost when South Africa unilaterally cancelled in 1978 a 50-year arrangement under which a portion of the wages of Mozambican mine workers was paid to Lisbon in gold at official prices that since 1971 had been well below market prices. [redacted]

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In the international accounts, the country's overall trade deficit widened to nearly \$500 million in 1983, with an accompanying current account deficit of at least \$300 million. Maputo's external debt stood at \$1.4 billion by the end of the year. For the first time Maputo fell into arrears on debt service payments to Western lenders; arrears, including those on trade, totaled \$200 million, with a further \$242 million in debt service payments due in 1984. [redacted]

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Coping

The country economic plight has forced Mozambican President Samora Machel to make some pragmatic shifts in foreign economic relations. Essentially, Machel has tried to cultivate the West while remaining in the good graces of his Communist allies. This policy goes back at least to the early 1980s when it became obvious to the Mozambican leadership that Eastern bloc countries would not provide aid funds on the scale that Mozambique required. [redacted]

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Mozambique's efforts to obtain economic support from the West did not gain much momentum until this year when several major developments occurred. [redacted]

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- Mozambique and South Africa signed the Nkomati Accord in March 1984 in which each country agreed to cease supporting insurgency groups operating against the other. Maputo expects increased trade, aid and investment from South Africa as a result.
- Maputo has drawn up a new Investment Code (September 1984) more favorable to foreign investment than existing statutes. The code is intended to encourage investment in agriculture, industry, and mining, areas that have attracted little foreign capital.
- The country has accepted the terms for membership in the International Monetary Fund and the World Bank (September 1984). Membership in these organizations will provide Mozambique with new sources of balance of payments support, development finance, and

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[redacted]

technical assistance. Mozambique is expected to complete a standby arrangement with the IMF shortly after joining, and funds from that organization are expected to be forthcoming before the end of the year.

-- Negotiations with Paris Club and other creditors have been underway this year for the rescheduling of Mozambique's \$1.4 billion external debt to the West. These negotiations are expected to speed up with Maputo's IMF membership and a standby arrangement with the Fund. Debt rescheduling would ease pressure on Mozambique's balance of payments and provide a more orderly external debt structure. [redacted]

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Outlook

In our view, the shifts in Mozambique's foreign economic policy will not yield dramatic results for some time. We do not expect economic recovery over the next two years at least because of the ravages of drought and the disruption caused by insurgent activity. Unless the government reaches an accommodation with RENAMO, economic activity probably will continue to be severely curtailed by the insurgency. A continuing uncertain security situation will hamper the inflow of foreign capital that Mozambique badly needs. [redacted]

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In our judgment, Mozambique's economic prospects over the longer term are not bright. The economy was never a robust one, even in colonial times, and the economic structure, based on a limited range of agricultural products subject to fluctuating world prices and on transportation services vulnerable to events in neighboring countries, is unlikely to undergo much change. [redacted]

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South Africa holds an important key to Mozambique's economic fortunes as Mozambique's largest trading partner and the chief customer for the services (transportation and labor) that largely support the Mozambican economy. We expect Pretoria to condition its contribution to the revitalization of the Mozambican economy to Maputo's actions on a broad range of political and security issues, including reconciliation with RENAMO. [redacted]

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Mozambique: Current Account 1/

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Million US \$

| | 1979 | 1980 | 1981 | 1982 | 1983 |
|-------------------------|------|------|------|------|------|
| Current Account Balance | -167 | -251 | -321 | -283 | -310 |
| Trade balance | -286 | -393 | -457 | -444 | -490 |
| Exports f.o.b. | 232 | 228 | 219 | 197 | 160 |
| Imports c.i.f. | 518 | 621 | 676 | 641 | 650 |
| Net services |) | 92 | 88 | 90 | 80 |
| | 119 |) | | | |
| Net transfers |) | 50 | 48 | 71 | 100 |

1. Estimated.

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